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APPENDIX A

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CONVENTION & CULTURAL FACILITIES RISK ASSESSMENTA-1

APPENDIX B

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CONVENTION & CULTURAL FACILITIES RISK

AUDIT RECOMMENDATIONS COST/BENEFIT ANALYSISB-1

BACKGROUND

The Convention and Cultural Facilities Department (CCF) promotes and operates the Center for the Performing Arts, Civic Auditorium, McCabe Hall, Montgomery Theater, Exhibit Hall, and meeting rooms. CCF will also operate the new Convention Center when it opens in 1989. CCF also administers fine arts grants and monitors the City's contract with the San Jose Convention and Visitors Bureau.

Description Of The City's Facilities

San Jose's convention and cultural facilities are in downtown San Jose. The four-building complex blends early California with high-technology architecture. Attendance capacities are about 6,500 at the cultural facilities and 9,900 at the convention facilities. This includes the new Convention Center. The total exhibit area of the existing convention facilities is 51,496 square feet. The new Convention Center will increase that amount to 216,496 square feet. TABLE I summarizes the exhibit areas and capacities of the City's facilities.

TABLE I
CONVENTION AND CULTURAL FACILITIES
EXHIBIT AREAS AND CAPACITIES

Convention Facilities	Exhibit Area Square Feet	Theater Seating	Banquet Seating	Exhibit Booths
Exhibit Hall	30,000	3,300	1,850	179
Civic Auditorium	9,342	3,060	700	76
McCabe Hall	7,434	800	550	43
Meeting Rooms	4,720	535	460	32
New Convention Center	165,000	2,500	5,000	900
TOTALS	216,496	10,195	8,560	1,230

Cultural Facilities	Maximum Capacity	Main Floor Seating		Balcony	
		Fixed	Portable	Fixed Seating	Standing
Center For The Performing Arts	2,701	1,859	86	756	0
Civic Auditorium	3,260	637	1,244	1,179	200
Montgomery Theater	537	356	8	173	0
TOTALS	6,498	2,852	1,338	2,108	200

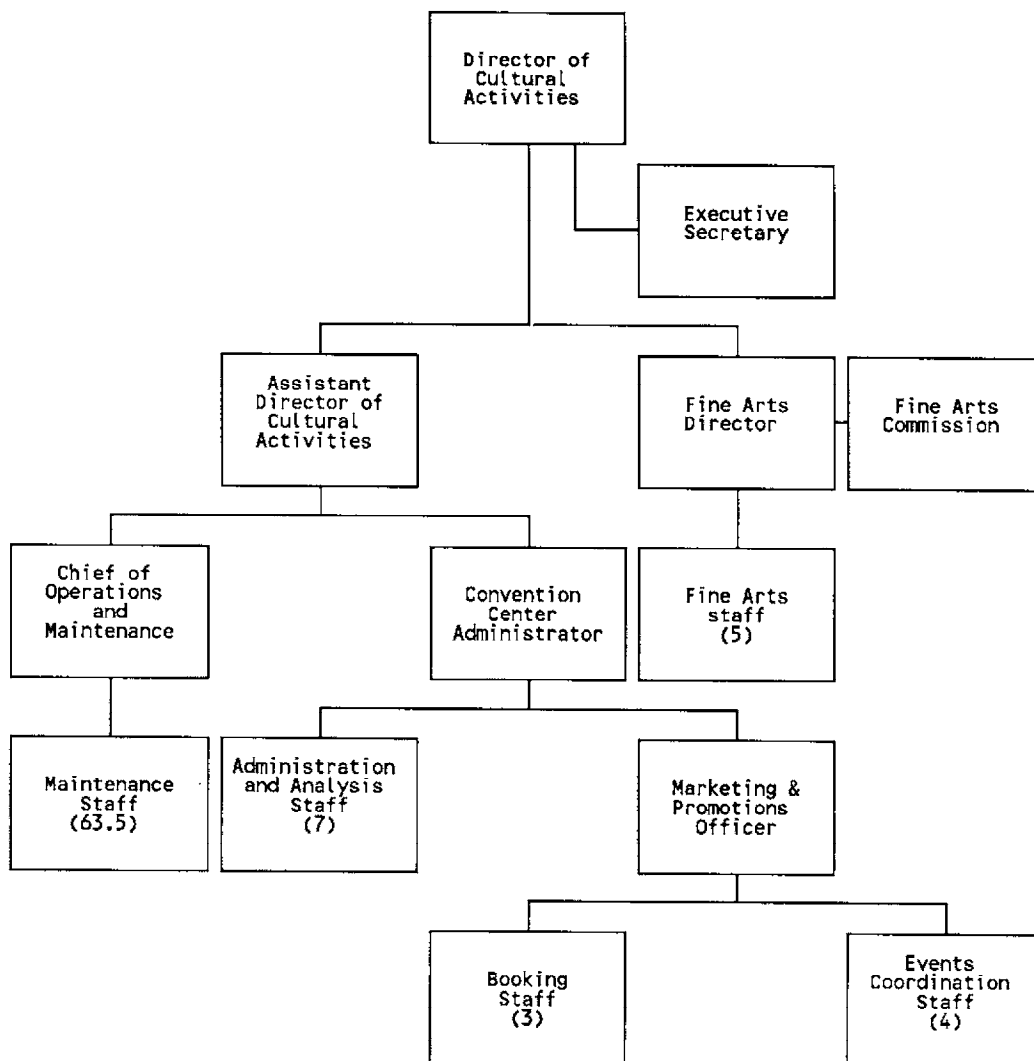
With the new Convention Center, San Jose's facilities will be in the medium-size class of convention and exhibition facilities in North America. A 1988 study of the exhibition hall industry in North America states that convention facilities the size of San Jose's generate up to \$169 million annually in economic impact to the local community.¹

¹ 1988 Annual Report - Exhibition Hall Industry, Laventhol & Horwath, Tampa, Florida.

Departmental Organization

The City's Director of Cultural Activities heads CCF. The Director oversees 87 full-time employees, 1 part-time employee, and 2 contract positions. The following chart describes CCF's organization.

CONVENTION AND CULTURAL FACILITIES CHART OF ORGANIZATION



The City Accounts For CCF Operations As An Enterprise Fund

The City accounts for CCF's operations as an enterprise fund. As such, CCF should recover its costs of providing services primarily through user fees. These fees include fixed charges for using facilities and equipment and/or a percentage of box office sales from facility events. CCF also receives a share of the in-house food and beverage concessionaire's gross sales. Finally, when the new Convention Center opens, promoters and their customers will pay for parking, telephone hook-ups, and utility usage.

SCOPE AND METHODOLOGY

Our audit covered CCF's operations including revenue collection and documentation, petty cash procedures, and the food and beverage concession contract. Our review also covered CCF's maintenance functions relating to facility security and documentation of event set-up costs. We did not review CCF's Fine Arts grants and operations or CCF's contract with the San Jose Convention and Visitors Bureau. Neither did we review CCF's current plans and activities for the new Convention Center's construction. However, our internal control recommendations will apply to the new Convention Center when it starts operations.

Risk Assessment

With the help of CCF management, we prepared a risk assessment of the CCF's cash and revenue system. By so doing, we determined the potential for losses to the City from the various threats that are intrinsic to operating convention and cultural facilities. We computed or estimated the number of items susceptible to individual threats, the occurrence rates of errors absent any controls, and the average dollar amount for those items susceptible to the threats. As a result of our analysis, we were able to estimate to what extent existing controls benefit the City beyond the cost to carry out the controls. Appendices A-1 through A-11 summarize the results of our risk assessment.

Risk assessment is not intended to predict exact amounts of losses or revenues. Rather, risk assessment provides a relative basis for assessing specific risks or control benefits. In addition, risk assessment provides a

means to compare CCF's risks or control benefits to other City departments or agencies. Such comparison will help City management in assigning priorities when implementing internal controls.

Users Survey And Review Of Facility Rental Documentation

We reviewed CCF's documentation of 20 events held recently in the facilities. We also conducted a telephone survey of 15 of the 20 facility users. Our objective was to determine whether the controls we identified during the risk assessment phase of our audit were working as intended.

Facilities Survey

We conducted a survey of 24 convention and cultural facilities throughout the United States. Our objective was to find out what controls other facilities use in their operations. We used our survey results to evaluate existing and potential controls at CCF's facilities.

Review Of Concessionaire's Operations

We reviewed CCF's food and beverage concessionaire's operations. Our objective was to determine whether CCF's concessionaire was complying with its contract. In addition, we determined if CCF has controls to ensure that the concessionaire's sales reports are reasonable and properly documented.

Review Of Petty Cash Procedures And Documentation

We reviewed CCF's procedures for the use and safeguarding of the Department's petty cash fund. We also tested CCF's petty cash documentation for compliance with City policies and procedures.

In General, CCF's System Of Internal Controls Is Adequate

We found that, in general, CCF has an adequate system of internal controls over its operations. Our risk assessment² showed that CCF's system of internal controls mitigates 91% of losses that could result from identified threats. Additionally, we found that:

1. Several facility users we surveyed had a high opinion of the CCF staff. One facility user expressed her appreciation of the planning and logistical help the event coordinators provided. Another referred to CCF's operations as "first class";
2. CCF's event documentation forms and checklists are well-designed and are an important part of CCF's internal control system;
3. CCF conscientiously follows the City's procedures for the use and documentation of petty cash. We did not find any exceptions in our review of petty cash documentation; and

² Summarized in Appendix A.

4. CCF management maintains a high level of visibility in the convention and exhibition hall industry. CCF has achieved this visibility by participating in convention industry organizations and networking with other convention facility managers.

FINDING I

CCF NEEDS TO IMPLEMENT ADDITIONAL PROCEDURES TO ENSURE THAT IT RECEIVES ITS PROPER SHARE OF EVENT REVENUES AND THAT IT IS PROTECTED AGAINST EVENT CANCELLATIONS AND LIABILITY FOR PERSONAL INJURY OR PROPERTY DAMAGE

CCF uses several procedures to protect the City in its dealings with facility users. However, our review revealed that CCF has not formalized or documented some procedures or, in some cases, consistently applied them. Specifically we observed that:

- Of 20 events sampled, one did not have a signed facility use permit;
- CCF has not consistently applied its policy regarding rental deposits;
- CCF staff do not document observations of ticket collections;
- Of eight revenue events sampled, one did not have a ticket manifest;
- Of eight revenue events sampled, three did not have completed box office settlement forms; and
- Of 20 insurance certificates sampled, at least 15 did not contain all required endorsements.

As a result, CCF is exposed to revenue losses from event cancellations and underreporting of event revenues. In addition, CCF is at risk in the event of personal injury or property damage on City property.

CCF Procedures For Renting Facilities

The renting of City facilities begins when a user-applicant contacts CCF. In response, CCF staff prepare a Facility Use Permit (Permit) and mail it to the applicant. CCF gives the applicant 10 days to return the completed Permit and any required rent deposit. If the applicant fails to meet the 10-day deadline, CCF informs the applicant that CCF may rent the facility to another applicant. If another applicant requests the same facility on the same date, CCF gives the first applicant a chance to submit the Permit and pay the rent deposit. If the first applicant does not respond, CCF rents the facility to the second applicant.

Of 20 Events Sampled, One Did Not Have A Signed Facility Use Permit

CCF's policy is that an event should not take place at a City facility unless the user has furnished a signed Permit. CCF's booking staff are required to use checklists to verify that the user has completed all required forms before the event takes place. The Permit is one of those required forms. As a final check, the Marketing and Promotions Officer usually reviews the checklist and the completed documents.

In our sample of 20 Permits, we found one that the user did not sign. While the user did pay the rental deposit, without a signed Permit, the user may not be responsible for various contract requirements which are part of the Permit. For example, absent a signed Permit, the user may later claim that he or she never agreed to provide insurance.

CCF can document completion of the Permit and the supplying of other required materials by having both preparers and reviewers sign and date the Event Checklist and Accounting Form. By so doing, CCF management can ascertain if its booking staff is following prescribed booking procedures. This would provide assurance that every event taking place at a CCF facility has a signed Permit.

CCF Has Not Consistently Applied Its Policy For Rental Deposits

Rental deposits are an essential control in protecting the City against rental losses. Rental deposits provide an incentive for facility users to comply with their contract. Since the deposit is the full rental for most events, rental deposits also assure CCF that it will get paid in case a facility user cancels or fails to pay what it owes to CCF.

CCF's Permit requires that facility users pay the rental deposit within 10 calendar days after the Permit is issued. However, CCF staff do not consistently apply the 10-day deposit deadline. Further, the form does not clearly notify the applicant that, if it does not make a timely rental deposit, CCF may lease the facility to another applicant.

In our sample of 28 events, we found one event in which the rental deposit deadline CCF imposed was the same as the event date. Furthermore, CCF gave deposit deadlines longer than 10 days in 14 sampled events and shorter than 10 days in 5 sampled events. Finally, in 14 of the 28 sampled events, the facility users turned in their rental deposits after the deadline CCF stipulated.

CCF should consistently adhere to its standard rental deposit deadline. Further, CCF's Permit should state that CCF may lease the facility to another applicant in the event rental deposits are not received on time.

**CCF Staff Do Not Document
Observations Of Ticket Collections**

CCF hires bonded ticket takers from the Ushering Division of the International Association of Theater and Stage Employees. These ticket takers collect tickets during revenue events held at CCF's facilities. CCF officials stated that adequate separation of responsibilities exists for ticket collection functions because ticket takers do not work for event promoters. In addition, CCF's event coordinator may observe ticket collections during a revenue event. However, we noted that the CCF representative does not prepare a report that details his or her observation of ticket collections.

For a control to be effective, there should be adequate feedback to management that staff is performing the control. Proper reporting of ticket collection observations would give notice to CCF management that ticket collectors are following proper procedures. Specifically, event coordinators should summarize the results of their ticket collection observations and report any discrepancies on the Event Report.

Of Eight Revenue Events Sampled, One Did Not Have A Ticket Manifest

The certified ticket manifest is an important control to ensure that the City receives its proper share of event revenues. The ticket manifest lists all the tickets the certifying printer printed. It describes the type, color, or location of tickets printed. In addition, it lists the number of tickets printed, and the face value of each type, color, or location. The ticket manifest establishes the basis for determining the event revenues subject to percentage payment to CCF. CCF's box office settlement instructions require a certified ticket manifest for revenue-producing events subject to a percentage of gross ticket sales. However, in our sample of eight revenue events, we found one revenue event for which a certified ticket manifest was not provided.

When a ticket manifest is not provided, CCF has to rely on the ticket drop count³ to verify ticket sales. This procedure is inherently unreliable because the drop count is tedious, time-consuming, and prone to errors. In addition, drop counts do not include tickets sold to people who do not show up for the event.

It should be noted that CCF does inform facility users that they must provide a ticket manifest. However, CCF does not specify what the consequences would be if the facility user does not provide the manifest. CCF should provide an appropriate incentive or penalty to encourage facility users to provide ticket manifests on time.

³ A ticket drop count is a count of ticket stubs collected during an event.

Of Eight Revenue Events Sampled, Three Did Not Have Completed Box Office Settlement Forms

CCF requires a box office settlement the same day events subject to a percentage of gross ticket sales are held. The box office settlement allows CCF to ascertain the amounts due it and reduces the potential for underpayment of CCF's percentage revenue.

In our sample of eight revenue events, we found three events in which the City representative and the facility user did not complete or sign the box office settlement form. Of the three events that we found to be deficient, one had a completed, but unsigned, form in the packet. The other two events did not have completed forms in their packets. Without both signatures on the box office settlement form, CCF management lack assurance that both the CCF and facility user's representatives have reviewed and accepted the box office settlement.

CCF does not formally require a review of the event packet checklist. However, the Marketing and Promotions Officer or one of his subordinates voluntarily performs such a review. Further, CCF does not require its reviewers to sign off when they have completed their event packet review. As a result, CCF management lack assurance that its staff are reviewing event packets. There is no evidence that event packet reviews were made for the three exceptions we noted.

CCF can establish ticket manifest responsibility by requiring preparers and reviewers of the Event Checklist and Accounting Form to sign and date the forms indicating compliance. By so doing, CCF can be better assured

that the event coordinators are following prescribed box office settlement procedures.

Of 20 Insurance Certificates Sampled, At Least 15 Did Not Contain All Required Endorsements

We reviewed the insurance certificates filed with the event packets for the 20 events we sampled. Part of our review was to determine whether the insurance certificates the facility users submitted contained the endorsements the Permit required. We found:

- All 20 certificates included Endorsement A, “The City of San Jose, its officers, agents and employees are additional insureds.”
- All 20 certificates included Endorsement B, “Sixty (60) days notice of cancellation or reduction of coverage will be given to the City of San Jose.” However, instead of 60 days, the endorsements offered either 30 or 10 days.
- Only 5 of 20 certificates included Endorsement C, “The insurance will be primary insurance as respects any other valid and collectible insurance the City of San Jose may possess, and any other insurance the City may have will be considered excess insurance only.”
- Only 5 of 20 certificates included Endorsement D, “This policy will act for each insured and additional insured as if a separate policy had been written for each.”

Without the above required endorsements, the City is exposed to risk. If a personal injury or property damage occurs during an event held in CCF’s facilities, the City may be responsible for paying the damages. The

City may not be protected by the facility users' insurance absent the endorsements in the facility users' certificates.

CCF does not require its staff to sign-off when they complete their reviews of the Event Checklist and Accounting Form. Consequently, we could not determine if a reviewer had checked the forms in the 20 event packets we sampled. CCF can clearly establish insurance review responsibility by requiring its preparers and reviewers to sign and date the Event Checklist and Accounting Form. By so doing, CCF management can be better assured that its booking staff gets proper insurance endorsements before approving events.

Risk Assessment

We identified and assessed the threats and potential losses for each of the internal control issues discussed above. We identified additional controls or enhancements to existing controls that will cost approximately \$28,100 per year to implement. These additional controls will reduce CCF's exposure to loss by approximately \$208,500 per year. TABLE II summarizes these additional controls, the cost to implement them and their expected benefits.

TABLE II

SUMMARY OF COSTS AND EXPECTED

BENEFITS OF RECOMMENDED ADDITIONAL CONTROLS

<i>Recommendation</i>	<i>Recommended Additional Controls</i>	<i>Estimated Annual Costs</i>	<i>Estimated Annual Reduction In Exposure To Loss</i>	<i>Expected Benefits</i>
<u>No</u>				
1	Formal deposit deadline policy	\$15,100	\$122,300	Assures the City that it will not lose revenue in three ways: 1) if the event is canceled after the deposit deadline, the City gets to keep the deposit; 2) if the event is canceled before the deposit deadline, usually the City has sufficient time to rent the facility to another applicant; and 3) if the promoter does not provide a box office settlement for the event, the City will have at least the minimum rental.
2	Report on observation of ticket collections	3,900	5,600	Observation of ticket collections ensure CCF that no tickets are "recycled" or withheld from the subsequent ticket drop count. Gross ticket sales will not be underreported.
3	Timely ticket manifests certified by the ticket printer	1,400	5,500	The ticket manifest ensures CCF that all tickets are accounted for, including those bought by people who do not show up to the event. The City must still receive a percentage from the tickets that were bought but not used.
4	Signature and date lines for preparer and reviewer in applicable places on Event Checklist and Accounting Form	7,700	75,100	A reviewer double checks the calculation of revenues owed to the City. A reviewer double checks adequacy of insurance. A reviewer makes sure that all the forms needed are in the event packet.
TOTALS		<u>\$28,100</u>	<u>\$208,500</u>	

CONCLUSION

CCF has not formalized, documented or consistently applied several procedures designed to protect the City in its dealings with persons renting City facilities. As a result, CCF is exposed to revenue losses from unexpected event cancellations and underreporting of event revenues. In addition, CCF is exposed to loss from personal injury or property damage on City property. CCF has various control procedures. However, our tests indicate that these controls are insufficient or inconsistently applied. We have identified additional controls or procedures that will cost approximately \$28,100 per year to implement and reduce CCF exposure to loss by an estimated \$208,500 per year.

RECOMMENDATIONS

We recommend that CCF:

Recommendation #1:

Adhere to its standard deposit deadline and inform facility users on the Facility Use Permit that the City may lease the facility to another applicant if the deposit is not received by the time stipulated. (Priority 2)

Recommendation #2:

Include in the event report form a section for the event coordinator to report observations of ticket collections during revenue events. (Priority 3)

Recommendation #3:

Indicate on the facility user instructions sheet an appropriate incentive or penalty to encourage facility users to provide a ticket manifest by the time stipulated. (Priority 2)

Recommendation #4:

Modify the Event Checklist and Accounting Form to include signature and date lines for both preparers and reviewers and require preparers and reviewers to sign-off in appropriate places as each step is completed or reviewed. (Priority 2)

FINDING II

CCF NEEDS TO IMPROVE CONTROL OVER ITS FOOD AND BEVERAGE CONCESSIONAIRE TO ENSURE COMPLIANCE WITH CONTRACT PROVISIONS

The contract that CCF has with its food and beverage concessionaire requires that the concessionaire 1) use cash registers, 2) maintain an inventory record, and 3) maintain an equipment record. Our review revealed that the concessionaire is not in compliance with these requirements. In addition, we noted that CCF does not receive the contract-required documentation to support sales reports. As a result, the food and beverage concessionaire is not in compliance with its contract and CCF is exposed to the risk of its concessionaire underreporting revenues.

The Concessionaire Is Not Complying With The Contract Provision Requiring The Use Of Cash Registers

Despite contract requirements to do so, the concessionaire does not use cash registers in its operations at CCF's facilities. As a result, CCF does not have cash register tapes to verify gross sales.

The contract between the City and Sportservice Corporation, section 18.1.6 requires that:

(The Licensee shall) use cash registers, of a type approved by the Director, for the recording of all sales made at each refreshment stand permitted to operate and at such other concession operations or locations as determined by the Director...Cash register tapes shall be retained for three (3) years after the date of use. Licensee shall not permit any employees (with the exception of walking vendors or the employees assigned to provide service to patrons at such other places where, as determined by the Director, cash registers are not used) to make change from open cash registers, boxes or containers, or from pockets of clothing.

The concessionaire's sales employees keep their cash receipts in, and make change from, cash boxes during the events. To record sales, the Stand Manager summarizes daily sales in a written report. The following day, the concessionaire's General Manager reconciles the daily sales report to the inventory. The concessionaire does not submit these reports or reconciliations to CCF. The concessionaire does, however, submit a monthly sales report to CCF.

The absence of cash registers exposes CCF to the risk that the concessionaire's staff will not keep cash receipts intact. Cash registers provide point-of-sale recording that customers and other observers can easily verify. At the end of the day, cash register tapes provide a reference for the reconciliation of cash receipts. Finally, cash register tapes can be retained and used to verify the accuracy of sales reports.

CCF should require the concessionaire to comply with contract provisions regarding the use of cash registers and retention of cash register tapes. In those instances where it may not be possible or cost-effective for the concessionaire to use cash registers, CCF should allow alternative revenue control procedures.

The Concessionaire Is Not Complying With The Contract Provision Requiring The Approval Of Its Inventory System

The concessionaire is required to submit its inventory system to the City for approval and provide inventory records to the City after the close of the fiscal year. The concessionaire has not provided the City with either.

The contract between the City and Sportservice Corporation, section 18.1.1 requires that:

(The Licensee shall) establish and maintain a complete record of the financial transactions and all catering and concession operations conducted on the Facilities premises, or in any way related thereto, which records shall be kept in conformance with good accounting practice and as required by the City's Director of Finance. Inventory systems to determine sales must be approved by the Director. Such records shall be maintained separately from any other operations the Licensee may have.

Contract section 18.5 further requires that:

An inventory of all supplies, materials, and food items shall be made by the Licensee no later than thirty (30) days after the close of each fiscal year. A copy of such inventory is to be given the Director within thirty (30) days following such inventory.

These contractually required inventory records could help CCF determine that the concessionaire is accurately reporting its revenues. CCF should review with the concessionaire's staff the contract provisions on inventory systems and records. In addition, CCF should require the concessionaire to reconcile its monthly sales reports to the inventory records. At least quarterly, CCF should review the concessionaire's monthly reconciliations.

The Concessionaire Is Not Complying With The Contract Provision Requiring Equipment Listings

The concessionaire is contractually required to provide CCF with a listing of the equipment the concessionaire brought into CCF's facilities. The concessionaire is not complying with this requirement.

The contract between the City and Sportservice Corporation, section 10.2 requires that:

With the approval of the Director, the Licensee may bring other Licensee-owned equipment into the Facilities during the period covered by this Agreement; however, a complete listing of such equipment, containing a full description of each item, must be supplied to the Director prior to the introduction of such equipment into the Facilities. ...Ownership of such equipment shall remain with the Licensee, and only such equipment so listed shall be removed.

Without the equipment listings and CCF's prior approval of such equipment, CCF is exposed to the risk that the equipment the concessionaire is using on City property is not appropriate or safe. In addition, without the equipment listing, CCF is exposed to the risk that the concessionaire will remove City equipment from CCF's facilities when the contract expires.

CCF should enforce the contract provision that requires the concessionaire to provide the list of concessionaire-owned equipment. In addition, CCF should check to see that the concessionaire removes only its equipment from CCF's facilities when the contract expires or at other times.

The Concessionaire's Local Staff Was Unaware Of Contract Provisions

The concessionaire's San Jose General Manager informed us that the concessionaire was not aware of the above contract requirements. Further, no City representative has approved their sales reporting procedures or their daily sales, inventory, or equipment records. Because the City did not contact him on these items, the General Manager assumed that their sales reporting procedures and their daily sales, inventory, and equipment records were adequate.

CCF should review with the concessionaire's local staff the provisions of the concession contract to avoid future misunderstandings. In addition, CCF should assure itself that the concessionaire's staff is properly trained in the use of the cash registers and in the documentation of sales. CCF should also periodically observe the concessionaire's sales operations.

Sales Reports Not Subjected To Verification

CCF does not compare the concessionaire's monthly sales reports to daily sales and inventory records, bank accounts, and sales tax reports. As a result, CCF is exposed to losses from computational errors or deliberate misrepresentations. CCF should require the concessionaire to reconcile its monthly sales reports to its daily sales and inventory records, bank accounts, and sales tax reports. At least quarterly, CCF should review such reconciliations.

Risk Assessment

We identified and assessed the threat and potential losses for the internal control issues related to concessionaire sales discussed above. We identified additional controls or enhancements to existing controls that will cost approximately \$2,600 per year to implement and will reduce CCF's exposure to loss approximately \$12,800 per year. TABLE III summarizes these additional controls, the cost to implement them and their expected benefits.

TABLE III
SUMMARY OF COSTS AND EXPECTED
BENEFITS OF RECOMMENDED ADDITIONAL CONTROLS

<i><u>Recommendation</u></i>	<i><u>Recommended Additional Controls</u></i>	<i><u>Estimated Annual Costs</u></i>	<i><u>Estimated Annual Reduction In Exposure To Loss</u></i>	<i><u>Expected Benefits</u></i>
<i><u>No</u></i> 5 thru 8	Establishment and verification of concessionaire contract compliance	\$1,300	\$8,900	The CCF will have information needed to verify that the concessionaire's revenue reports are accurate and that the City is being paid the correct contract fees. When the concessionaire removes equipment, the City will be able to check that only concessionaire-owned equipment is removed from the facilities.
9	Quarterly review of concessionaire prepared reconciliations	1,300	3,900	CCF can verify that the concessionaire's revenue reports are accurate and that the City is being paid the correct contract fees.
TOTALS		<u>\$2,600</u>	<u>\$12,800</u>	

CONCLUSION

Our review of CCF's food and beverage concession contract revealed that the concessionaire is not complying with contract provisions regarding 1) the use of cash registers, 2) maintaining an inventory record, and 3) maintaining equipment records. In addition, we noted that CCF does not receive the contract-required documentation to support sales reports. As a result, CCF is exposed to losses from the concessionaire underreporting revenues and to the risk of losing equipment. We have identified additional controls or procedures that will cost approximately \$2,600 per year to implement and reduce CCF exposure to loss by an estimated \$12,800 per year.

RECOMMENDATIONS

We recommend that CCF:

Recommendation #5:

Review with the concessionaire's local staff the provisions of the concession contract relating to 1) the use of cash registers and the required sales documentation, 2) the inventory system, and 3) required equipment records. (Priority 3)

Recommendation #6:

Incorporate into future contracts with concessionaires, alternative revenue control procedures when the use of a cash register is impractical. (Priority 3)

Recommendation #7:

Periodically observe the concessionaire's sales operations and test sales records for proper compliance with contract provisions. (Priority 3)

Recommendation #8:

Require the concessionaire to provide a listing of concessionaire-owned equipment located on CCF premises. CCF should also observe the removal of concessionaire-owned equipment from CCF's facilities when the concession contract expires or whenever equipment is removed, and note such removal on the equipment inventory. (Priority 3)

Recommendation #9:

Require the concessionaire to reconcile its monthly sales reports to daily sales and inventory records, bank accounts, and sales tax reports and, at least quarterly, review such reconciliation. (Priority 3)

FINDING III

CCF NEEDS TO IMPLEMENT ADDITIONAL PROCEDURES TO CONTROL UNAUTHORIZED ACCESS TO CONVENTION AND CULTURAL FACILITIES AND TO ACCOUNT FOR AND CONTROL FACILITY KEYS

Our review revealed that CCF does not have adequate procedures to ensure that the maintenance staff properly secure facility entrances. In addition, CCF does not have procedures to adequately safeguard and account for facility keys issued to employees or facility users. As a result, CCF's facility areas and user events are susceptible to unauthorized persons gaining access.

Unauthorized Access To Events

Of the 20 facility users we surveyed, one reported that unauthorized persons entered his event through entrances that should have been closed and locked.

CCF controls unauthorized entrances into events by having its maintenance staff inspect facility entrances that should be locked. CCF has not, however, formally established or documented these inspections as a part of event set-up procedures. As a result, CCF management lacks assurance that its staff is inspecting the facility entrances before each event.

CCF can clearly establish responsibility for inspecting entrances by requiring its staff to indicate that they have made the inspections. This can be done by modifying the maintenance Set-Up form or the daily log to include a sign-off line for security inspections. CCF staff should sign-off on

the form after they have inspected and locked all the entrances that should be closed and locked during an event. This procedure will provide CCF management with additional assurance that its staff has inspected facility entrances prior to each event.

Procedures For The Safeguarding And Accounting Of Facility Keys Need Improving

Our review of CCF's procedures for the safeguarding of and accounting for facility keys revealed the following:

1. CCF does not maintain a complete listing of the keys it has issued to its employees or facility users. As a result, CCF cannot make a full accounting of all issued keys;
2. CCF does not conduct a periodic inventory of keys; and
3. CCF has not established a policy for the control and safeguarding of keys. In addition, CCF does not have a policy regarding the copying of facility keys.

Potential Effects Of Inadequate Control Over Facility Keys

During our review, we identified the following deficiencies associated with facility key control:

- Lost or stolen keys in the hands of unauthorized individuals expose CCF to loss from personal injury, property theft, and property damage.
- The lack of records for keys issued to employees exposes CCF to the risk that keys will not be recovered from terminated employees.

- The lack of a periodic key inventory exposes CCF to the risk that lost staff keys will not be detected in a timely manner.
- The lack of a checkout list for daily use of keys exposes CCF to the risk that staff will inadvertently keep keys for several days and no one will know where they are.
- The lack of a policy prohibiting the duplication of facility keys exposes CCF to the risk that unauthorized and unaccounted for keys will be in circulation.

Survey Of Other Convention And Cultural Facilities

Maintaining controls over facility keys is a common industry practice. Each of the respondents to our survey of other convention and cultural facilities had at least one control over facility keys. The results of our survey were that:

- Of 24 survey respondents, 19 stated that they have written policies and procedures relating to the use and safeguarding of facility keys.
- All 24 survey respondents stated that they use a check-out list to keep track of keys issued to employees or facility users.
- Of 24 survey respondents, 22 stated that they take a periodic inventory of keys.
- Of 24 survey respondents, 21 stated that they have “DO NOT DUPLICATE” engraved on at least some of their facility keys.
- Of 24 survey respondents, 21 stated that they use facility keys with engraved identification numbers.

Authoritative Literature Recognizes The Need For A Well-Designed Key Control System

In his book, “Security Control: Internal Theft” (Lebhar-Friedman, Inc., 1973), Bob Curtis states that an organization should enforce a well-designed key control system as part of its total security program. He cites examples of how businesses incurred substantial losses because of carelessness in the handling of keys. Mr. Curtis also provides suggestions on how to control a key system. Among these suggested controls, the following apply to CCF:

- Avoid the danger of key duplication. Caution managers not to leave store keys with parking lot attendants, in a topcoat hanging in the office, or lying about the office or stockroom;
- Keep your records on key distribution up to date so you know how many keys have been issued and to whom; and
- Take a periodic inventory of all keys. In taking inventory, be sure to have department supervisors or other employees show you each key, so you will know it has not been lost, mislaid, or loaned.

Risk Assessment

We identified and assessed the threats and potential losses for each of the security inspection and facility key control issues discussed above. We have identified additional controls or enhancements to existing controls that will cost approximately \$9,500 per year to implement. These additional controls will reduce CCF’s exposure to loss approximately \$67,600 per year. TABLE V summarizes these additional controls, the cost to implement them and their expected benefits.

TABLE IV

SUMMARY OF COSTS AND EXPECTED
BENEFITS OF RECOMMENDED ADDITIONAL CONTROLS

<i>Recommendation</i>	<i>Recommended Additional Controls</i>	<i>Estimated Annual Costs</i>	<i>Estimated Annual Reduction In Exposure To Loss</i>	<i><u>Expected Benefits</u></i>
<u>No</u> 10	Documentation of maintenance security checks	\$1,300	\$16,700	Unauthorized persons cannot gain entry into facilities and cause personal injury or property loss or damage. Facility users will have no complaints regarding unauthorized persons walking into their events and will continue to rent City facilities.
11 thru 14	Controls over facility keys	8,200	50,900	Unauthorized persons cannot gain entry into facilities and cause personal injury or property loss or damage. Money kept overnight in safe deposit boxes will be safer.
TOTALS		<u>\$9,500</u>	<u>\$67,600</u>	

CONCLUSION

CCF does not have procedures to provide assurance that its staff secure facility entrances before events are held. In addition, CCF needs to impose additional controls for keys issued to employees or facility users. As a result, CCF is exposed to the risk that unauthorized persons will gain access to CCF facilities. We have identified additional controls or enhancements to existing controls that will cost approximately \$9,500 per year to implement and reduce CCF's exposure to loss by an estimated \$67,600 per year.

RECOMMENDATIONS

We recommend that CCF:

Recommendation #10:

Modify its event Set-Up form or daily maintenance log to include a sign-off line for inspecting and securing entrances. CCF staff should sign-off on the line after they have inspected and secured all the entrances that should be closed and locked during the event. (Priority 2).

Recommendation #11:

Maintain in each employee's personnel file a list of keys issued to the employee. (Priority 3)

Recommendation #12:

Include in the event packet a record of any keys issued to the facility user and note when they are returned. (Priority 2)

Recommendation #13:

Number facility keys, list them, and take a periodic inventory to account for all keys. (Priority 2)

Recommendation #14:

Engrave “DO NOT DUPLICATE” on all facility keys. (Priority 2).

FINDING IV

CCF NEEDS TO COMPLETE ITS DOCUMENTATION OF INTERNAL CONTROLS

clearly documented. Such documentation includes the identification of internal control objectives, techniques, and accountability systems. Our review revealed that CCF has not adequately documented all of its important internal control techniques. As a result, CCF's staff may not understand or properly implement these techniques.

Internal Control Standards

Internal control standards, as defined by the U.S. General Accounting Office, state that:

Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.

This standard requires written evidence of 1) an agency's internal control objectives and techniques and accountability systems and 2) all pertinent aspects of transactions and other significant events of an agency. Also, the documentation must be available as well as easily accessible for examination.

CCF's Documentation Is Incomplete

Our review revealed that CCF has not adequately documented all of its internal controls techniques. While CCF's management considers its written administrative procedures adequate, they are incomplete. Specifically, CCF's written procedures describe the steps necessary to accomplish various tasks. However, CCF has not prepared written procedures for several important internal control techniques. Some of these techniques include:

- Collecting fees from facility users before an event is completed;
- Reviewing event packet information;
- Observing ticket collections;
- Inspecting facility entrances before an event;
- Reviewing concessionaire monthly sales reports; and
- Controlling facility keys.

Internal Control Documentation Is a Valuable Management Tool

Internal control documentation is a tool to help assure that internal controls are understood and followed and that management's policies are implemented. In addition, internal control documentation facilitates staff training and is a guide to replacements whenever regular staff are not available. Finally, internal control documentation facilitates rating the performance of those individuals responsible for implementing various internal controls.

CCF should prepare written procedures for all of its internal control techniques. In addition, CCF should train its staff on these techniques. We estimate that it will cost CCF approximately \$20,100 to document its internal controls and conduct staff training. Such documentation will reduce CCF's exposure to loss by approximately, \$67,100 per year. TABLE V summarizes the recommended controls, the cost to implement them and their expected benefits.

TABLE V
SUMMARY OF COSTS AND EXPECTED
BENEFITS OF RECOMMENDED ADDITIONAL CONTROLS

<i>Recommendation</i>	<i>Recommended Additional Controls</i>	<i>Estimated Annual Costs</i>	<i>Estimated Annual Reduction In Exposure To Loss</i>	<i><u>Expected Benefits</u></i>
<i><u>No</u></i> 15 & 16	Internal controls documentation staff training	\$20,100	\$67,100	Staff will know exactly what their responsibilities are. Staff will be accountable for their responsibilities. The City will not lose institutional knowledge when key employees leave or are not available.
TOTALS		<u>\$20,100</u>	<u>\$67,100</u>	

CONCLUSION

Internal control standards require that internal control systems be clearly documented. Such documentation includes identification of internal control objectives, techniques, and accountability systems. Our review revealed that CCF needs to prepare written procedures for all of its internal control techniques. Absent such written procedures, CCF's staff may not

understand or properly implement required techniques. It will cost CCF approximately \$20,100 per year to document its internal controls and train its staff. Such documentation and training will reduce CCF's exposure to loss by approximately \$67,100 per year.

RECOMMENDATIONS

We recommend that CCF:

Recommendation #15:

Complete its written procedures for internal control techniques.
(Priority 3)

Recommendation #16:

Conduct periodic training to acquaint its staff with the internal control techniques. (Priority 3)

FINDING V

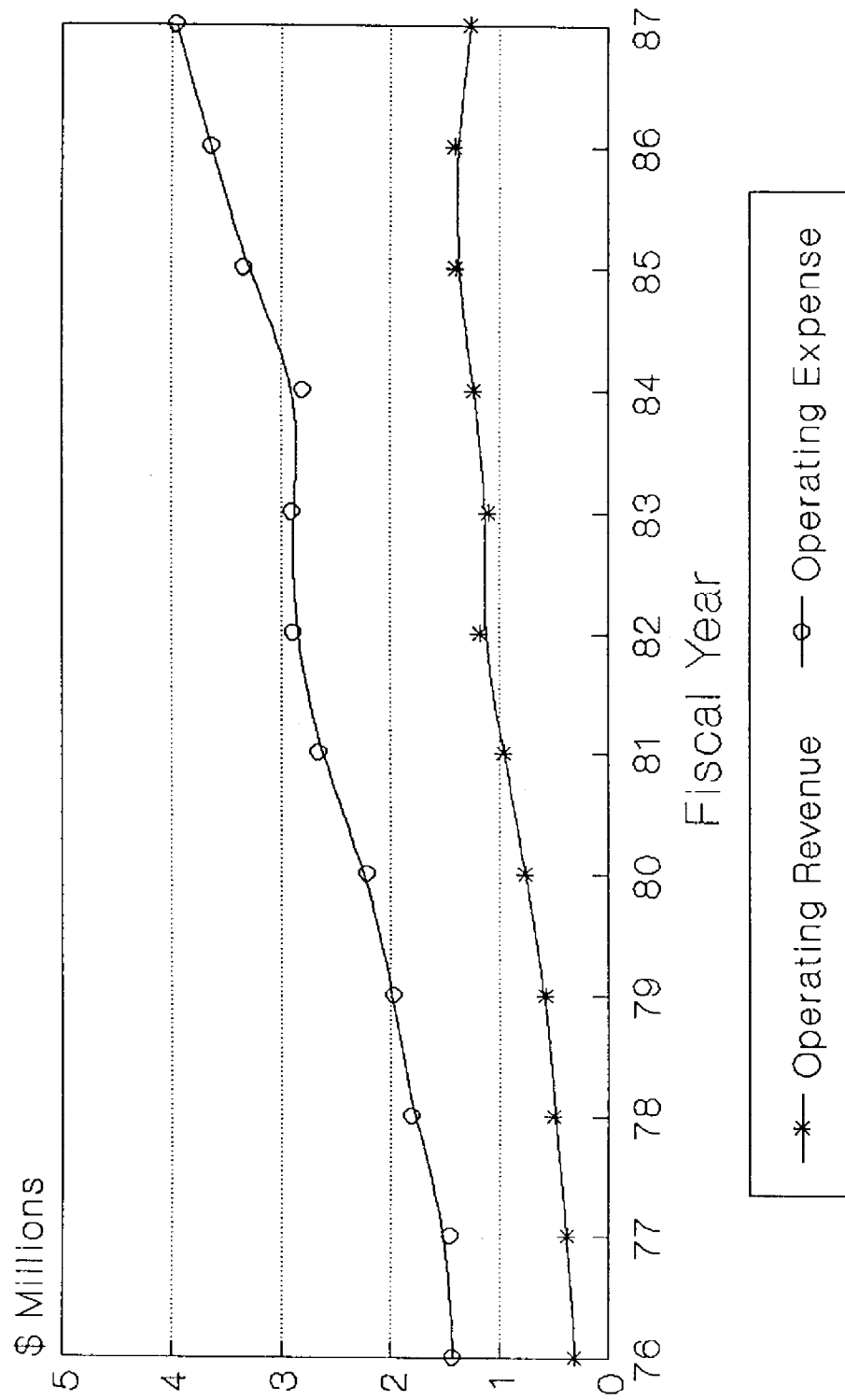
CCF SHOULD ESTABLISH ATTENDANCE AND PROFITABILITY OBJECTIVES AND DEVELOP A MARKETING PROGRAM TO ACHIEVE THOSE OBJECTIVES

The City accounts for CCF's operations as an enterprise fund. As such, CCF should attempt to recover its costs primarily through user charges. Thus, CCF should attract events that will make it financially self-sufficient and maximize the facilities' positive economic impact on the community. Our review revealed that CCF does not have formal attendance or profitability objectives. In addition, CCF does not have a formal marketing plan to attract high-attendance or profitable events. Further, CCF does not keep records of maintenance and other costs for individual events. As a result, CCF may not be targeting those types of events that generate the highest attendance or profits.

CCF Operates As An Enterprise Fund

The City accounts for the Convention and Cultural Facilities as an enterprise in the City's accounting records. Thus, the City ostensibly intends to finance or recover CCF's costs of operations through user charges. However, during the period from fiscal year 1975-76 through 1986-87, CCF's operating expenses have exceeded its operating revenues. During that period, CCF's losses ranged from \$1.1 million in 1975-76 to more than \$2.7 million in 1986-87. The following chart summarizes CCF's operating revenues and expenses from 1975-76 through 1986-87.

Convention And Cultural Facilities Summary Of Operating Revenue And Expense From 1975-76 Through 1986-87



The City subsidizes CCF's operating deficits through revenue transfers from the General Fund and the Transient Occupancy Tax Special Fund (TOT). The City established the TOT in 1981 to provide a continuing funding source for CCF and other recipients.

CCF Has No Formal Attendance Or Profitability Objectives

CCF's current operating objectives do not address attendance and profitability levels. CCF had attendance and revenue objectives in its 1986-87 Work Management Program. However, CCF did not include these objectives in its 1987-88 Work Management Program.

CCF should adopt attendance and profitability objectives in its Work Management Program. By so doing, CCF will demonstrate its commitment to reducing General Fund subsidies and increasing the positive economic impact its facilities have on the community.

CCF's Objectives And Marketing Plan Should Target High-Attendance Events

Convention attendance has both a direct and indirect economic impact on a local economy. According to a 1988 report⁴, facilities similar to San Jose's can impact a local economy by as much as \$169 million annually.

CCF's Work Management Program objectives do not address facility attendance levels. CCF should set as one of its operating objectives

⁴ 1988 Annual Report - Exhibition Hall Industry, Laventhol & Horwath, Tampa, Florida.

increased facility attendance. In addition, CCF's marketing plan should also target high-attendance events. By so doing, CCF will improve the chances that its facilities will benefit the local economy to the maximum degree possible.

CCF's Objectives And Marketing Plan Should Target Profitable Events

CCF had in its 1987-88 Work Management Program an objective to maximize event days at its facilities. While the objective of maximizing event days seems appropriate, it may exacerbate CCF's operating deficit problem. For example, to meet its event days objective, CCF may be compelled to rent its facilities at a loss. While such an approach may very well increase CCF's event days it will not improve upon CCF's operating results.

CCF should restate its Work Management Program objectives to include targeting profitable as well as high-attendance events. By so doing, CCF may be able to reduce its dependence on General Fund subsidies.

CCF Does Not Keep Track Of Event Costs

In order for CCF to target profitable events, it must be able to match revenues against expenses for each event. CCF's current record-keeping procedures do not facilitate such a matching.

CCF does keep track of revenues for each event. This helps CCF identify high revenue events. However, CCF does not similarly keep track

of the direct costs for each event. Without this cost information, CCF cannot identify profitable events. For example, an event that generates \$1000 for CCF but costs \$400 produces a profit of \$600. Another event that generates only \$800 for CCF but costs \$100 produces a profit of \$700. Thus, while the first event generates \$200 more in revenues, it also produces \$100 less in profits. CCF would be able to make profitability analyses for its events if direct cost information were available.

CCF Can Capture Event Cost Information

We identified that direct cost information can be captured on either the Set-Up form or the daily maintenance log. In planning an event, CCF's booking staff prepare a Set-Up form. This form describes the equipment, props, and arrangement that the facility user wants for the stage, auditorium, or exhibit hall during the event. CCF's maintenance staff uses the completed Set-Up form to arrange the facility. After the event, the Set-Up form is discarded.

CCF's maintenance supervisor summarizes each day's clean-up work in a daily maintenance log. However, the supervisor does not record the staff time or supplies used to clean-up or repair the facilities for specific events.

CCF should record staff time and supplies used for each event on the event Set-Up form or on the daily maintenance log. CCF should then use this information to identify the direct costs for each event. By so doing, CCF can determine the profitability of each event by comparing revenues to

direct costs. This will facilitate CCF targeting profitable events in its marketing efforts.

Risk Assessment

We identified and assessed the threats and potential losses for the marketing and profitability evaluation issues discussed above. We estimate that additional controls will cost approximately \$20,300 annually in staff time and supplies. However, these controls will reduce CCF's exposure to loss from unprofitable events by approximately \$98,800 per year. TABLE VI summarizes these additional controls, the cost to implement them and their expected benefits.

TABLE VI
SUMMARY OF COSTS AND EXPECTED
BENEFITS OF RECOMMENDED ADDITIONAL CONTROLS

<i>Recommendation</i>	<i>Recommended Additional Controls</i>	<i>Estimated Annual Costs</i>	<i>Estimated Annual Reduction In Exposure To Loss</i>	<i><u>Expected Benefits</u></i>
<u>No</u> 17 thru 19	Attendance and profitability objectives, marketing plan, and event profitability evaluation	\$20,300	\$98,800	Increased visibility of attendance and profitability objectives will result in increased management commitment to reducing General Fund subsidies and increasing positive economic impact to the community. Profitability objectives will foster competitiveness and a business-oriented approach to the operation of the facilities. Availability of event cost data will allow CCF to: 1) compute profitability for each event; 2) include maintenance cost factors in setting fees for various types of events; and 3) use cost data when negotiating special fees for events requiring extra maintenance work.
TOTALS		<u>\$20,300</u>	<u>\$98,800</u>	

CONCLUSION

The City accounts for CCF's operations as an enterprise fund. As such, CCF should attempt to recover its costs of providing services primarily through user charges. Thus, CCF objectives should be to attract the events that will make it financially self-sufficient and maximize the facilities' positive economic impact on the community. Our review revealed that CCF does not have formal attendance or profitability objectives. In addition, CCF

does not have a formal marketing plan to attract high-attendance or profitable events. Further, CCF does not keep records of its direct costs for various events. As a result, CCF may not be targeting those types of events that generate the highest attendance or profits. We have identified additional controls or enhancements to existing controls that will cost approximately \$20,300 per year to implement and reduce CCF's exposure to loss by an estimated \$98,800 per year.

RECOMMENDATIONS

We recommend that CCF:

Recommendation #17:

Adopt attendance and profitability objectives in its Work Management Program and adopt a formal marketing plan to achieve those objectives.
(Priority 2)

Recommendation #18:

Record staff time and supplies used for each event on event Set-Up forms or on daily maintenance logs to identify direct costs for each event.
(Priority 2)

Recommendation #19:

Determine the profitability of each event by comparing revenues to direct costs. (Priority 2)

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